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C O N F I D E N T I A L TUNIS 001255

SIPDIS

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CAIRO FOR FINANCIAL ATTACHE (SEVERENS)
LONDON AND PARIS FOR NEA WATCHER
OES (SENSENEY AND LAWRENCE),

E.O. 12958: DECL: 12/24/2009
TAGS: ECON EFIN EXIM FAO TS
SUBJECT: TUNISIA'S 2009 BUDGET FAVORS EDUCATION AND JOB
CREATION

REF: TUNIS 1011

Classified By: Ambassador Robert F. Godec for reasons 1.4 (b) and (d).

Summary

¶1. (C) The Tunisian government has approved a 2009 budget that focuses on supporting business and investment in the wake of the world financial crisis. The GOT projects a three percent budget deficit for 2009, and is targeting five percent real GDP growth despite worsening economic conditions both abroad and domestically. Businesses will continue to benefit from tax relief and government ministries have been directed to implement policies to encourage growth and attract foreign direct investment. Education received the largest budget allocation totaling close to US $3 billion. Despite an all-around reduction in customs tariffs, the GOT projects 12 percent growth in revenue without increasing taxes for corporations or private individuals. On the surface this budget sends all the right messages, but GOT expectations seem unrealistic given the (economic realities in light of the) international financial crisis. End Summary.

Credits and Debits

¶2. (U) On December 22, the GOT approved a 2009 budget of TND 17.2 billion (US $13.2 billion) and set the targeted budget deficit at three percent (the same target as 2008) despite the effect the global financial crisis is having on Tunisia's economy. (NOTE: For both 2008 and 2009 figures, the current exchange rate of TND 1.3 to US $1 is used.) Total government revenue is expected to reach TND 13.25 billion (US $10.3 billion), an increase of 12 percent over 2008 revenue projections. This estimated growth is consistent with the previous year's collections increase and reflects the GOT's optimistic outlook for 2009.

¶3. (SBU) In a statement to the press, the Prime Minister emphasized the streamlining of the Tunisian tax code and the modernization of collections. Over the last five years, total revenue receipts maintained consistent growth rates ranging between seven and nine percent, despite the dismantling of

import tariffs on imported European manufactured goods. 2009 income and corporate tax receipts are expected to increase 12 percent to TND 11.2 billion (US $8.6 billion). Non-tax income is expected to grow 14 percent to TND 1.9 billion (US $1.4 billion), because of planned privatizations, natural resource revenues, and the sale of a third fixed/mobile telephone license. The GOT expects to borrow TND 3.9 billion (US $3.28 billion) of which 78 percent will be domestic and the remaining foreign. Foreign loans will be directly applied in the following way: 75 percent will go to public infrastructure projects, 11 percent to state-owned companies, 12 percent to economic integration projects and two percent from donor sources will be used for the acquisition of agricultural products.

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The Future's So Bright, Tunisians have to Wear Shades
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¶4. (U) Setting five percent as the targeted GDP growth rate is proof of the GOT's optimism for 2009, despite the real impact the financial crisis is having on the private sector. In late third quarter 2008, the GOT ratcheted down the projected 2008 GDP growth rate from 6.1 percent to 5.1 percent. Forecasted GDP growth for 2009 reflects GOT confidence that exports, tourism revenues and foreign direct investment will remain strong. The Economist Intelligence Unit, among others, is projecting a lower GDP growth rate for Tunisia at around 3.9 percent for the coming year. Tunisia has enjoyed relatively high average GDP growth rates of five percent during the last ten years, allowing the economy to out pace the world average. The GOT projects growth rates in the agricultural sector, the manufacturing sector and

hydrocarbons of 2.5 percent, 2.3 percent 12 percent, respectively.

Men At Work

¶5. (U) The Ministry of Employment's 2009 budget, TND 99 million (US $83.11 million) increased 14 percent over last year's allocation of TND 86 million (US $72 million). The primary focus, as in years past, will be job creation to decrease the official 14 percent unemployment rate. The GOT 2009 goals are consistent with the target set in the 11th Economic Development Plan of reducing unemployment to 11 percent by 2011. The present unemployment rate of 14 percent remained largely unmoved in 2008, and experts express concern over the likelihood of progress given the current global economic situation. Aside from the Ministry's budget, a total of US TND 257 million ($198.1 million) is destined for job creation, which is a slight increase over the 2008 allocation of TND 247 million (US $198 million). Another TND 100,000 (US $98,000) will be set aside for the national employment fund. The GOT's goal is to create a total of 77,000 new jobs in 2009, 43,000 of which are intended for the estimated 50,000 graduates that will be entering the job market.

Show me the Money

¶6. (U) The GOT talks about focusing resources on education, and for 2009 follows through on this promise. The largest budget allocation went to the Ministry of Education totaling US $2 billion (TND 2.7 billion), the Ministry of Higher Education is a close second with an allocation of TND 1.03 billion (US $790 million). Per capita education spending in 2009 will increase slightly over the 2008 allocation to $638 in 2009.

¶7. (U) The Ministry of Commerce is slated to receive TND 872 million (US $726 million). The Prime Minister said that TND 19 million (US $15.8 million) will be used to support

exports, the handicraft industry and upgrade distribution channels for agricultural products and fisheries. This export support fund is an increase from the previous year,s allocation of TND 17.2 million (US $14.3 million). Information Communication Technology will also receive increased project support funds of TND 84 million (US $69 million), an increase of five percent over the 2008 budget allotment.

¶8. (U) Other ministries will receive the following allocations:

- Interior TND 1.03 billion (US $793 million)
- Industry and Energy TND 993 million (US $764 million)
- Public Health TND 834 million (US $695 million)
- Agriculture TND 776 million (US $596 million)
- Defense TND 720 million (US $553 million)
- Foreign Affairs TND 115 million (US $88 million)
- Tourism TND 114 million (US $87 million)
- Transportation TND 459 million (US $353 million)

Welfare, Government Cheese

¶9. (U) The GOT will set aside TND 1.6 million (US $1.2 million) for the public welfare system that will be bolstered by an additional TND 650 million (US $500 million) for fuel subsidies. The GOT based this allocation on the assumption that oil prices will increase to US $90/barrel during the course of the year. 131 items are subsidized under the public welfare system with the bulk, 36 percent, going to subsidize staple food items. Among the food items the GOT subsidizes are cereals, dairy products, cooking oil and sugar.

What is in it for Me?

¶10. (U) The budget law also sets forth the GOT's vision for supporting business development. Companies currently benefiting from tax relief that are purchased will be able to convey the tax benefit to the new owners. The Small and Medium-sized Bank (BFPME) will receive a TND 30 million (US $23 million) injection of capital to increase lending to small businesses. Customs tariffs on raw materials, semi-processed goods and remaining imports will decrease to 15 percent, 36 percent, and 36 percent respectively, from the current rates of 17 percent, 43 percent and 60 percent.

Comment

¶11. (C) This budget reflects consistency in the GOT's vision for Tunisia, but probably does not adequately take into account the financial crisis. Revenues from corporate and individual taxes are not likely to hold steady if exports and tourism decline, bringing into question the GOT's ability to maintain the targeted three percent budget deficit. Moreover, a downturn in these key economic sectors could have a negative impact on government revenues, and as a secondary effect, increase private citizen dependence on public assistance. On the upside, if oil prices remain at current levels, the GOT may be able to offset lower revenues from taxes with lower expenditures on subsidies.

¶12. (C) We continue to follow closely the effects of the financial crisis on Tunisia (reftel). Here as elsewhere, what happens in the crisis will have a significant impact on the viability of the government's budget. The good news in the GOT budget is that the focus is where it should be: on delivering services to its citizens. For that, at least, the GOT deserves a pat on the back.

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